

| STRATEGIC ALTERNATIVES

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SUMMARY CONCLUSIONS

Our preliminary environmental scan has produced the following summary conclusions:

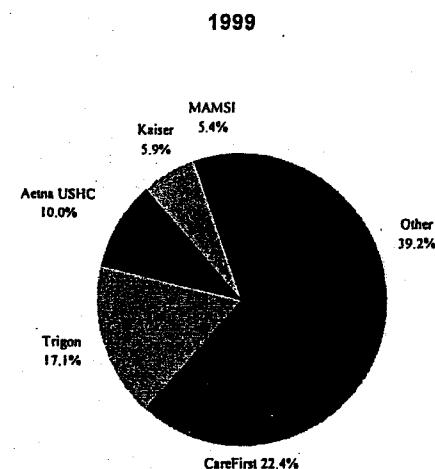
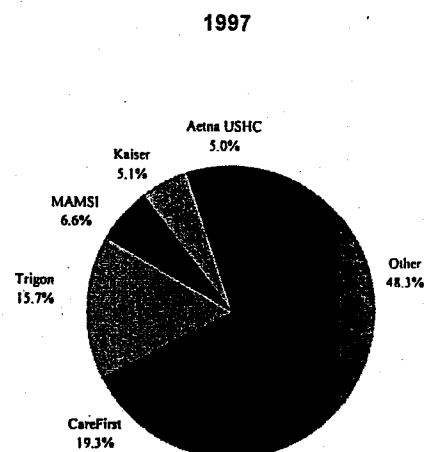
- **Larger competitors more likely to pursue strategic transactions as their stock prices continue to appreciate and potential transactions become more accretive to earnings**
 - National and regional plans are looking for market consolidation opportunities (*i.e.* MAMSI, Coventry, etc.) since larger acquisitions may face potential anti-trust issues
 - As stock prices rise, larger competitors are likely to turn away costly share repurchases and redeploy capital strategically
- **Potential to lose control of destiny if competitors execute strategic combinations away from CareFirst**
 - In fact, Trigon is pursuing a business combination with Cerulean, which could negatively affect CareFirst's market position
- **Peak of industry profit cycle**
 - Scale is required to profitably weather eventual downturn in pricing cycle and increased market competition
- **Social purpose of Foundation increases attractiveness of conversion**
 - Ability to significantly benefit underserved constituencies through funding of large, dedicated health care foundation

**BASED ON CSFB'S SUMMARY CONCLUSIONS, WE STRONGLY SUPPORT
THE COMPANY'S STRATEGIC PLAN FOR CHANGE**

LOCAL CONSOLIDATION IS ACCELERATING

The effects of industry consolidation are readily apparent in CareFirst's home market.

- Within CareFirst's home market, competition has increased over the last several years
 - Top five players represented 60.8% of market at the end of 1999 compared to 51.7% in 1997
 - Over the same period Aetna USHC has doubled its share to 10.0% of the total market, positioning it as the third largest player in CareFirst's home market



Source: NRC data provided by CareFirst.

Note: Home market includes Maryland, D.C., Delaware and Virginia.

LOCAL MARKET OVERVIEW

CareFirst's core service area is evolving as industry consolidation changes the competitive landscape.

Competition

- Local market competition is increasing as industry consolidation increases presence of large national players
 - Acquisition of PruCare by Aetna U.S. Healthcare
 - Development of strong local market provider networks by large national plans
 - Uncertainty surrounding MAMSI's long-term status
- However, as acquisitions have proven disruptive to members, it creates opportunities for strong locally-focused players
- Member satisfaction has become a source of competitive advantage as the trend towards consumerism accelerates

Pricing

- Local market pricing differences create an opportunity to gain market share
- Price is emerging as an important selection criteria as a greater proportion of premium cost is being passed on to employees

Other

- Strong economic growth in Maryland, Northern Virginia and Washington, DC areas
- High market penetration in core CareFirst service areas
- Significant base of government employees
- Large base of highly attractive mid-sized businesses

TRENDS IN THE BCBS SYSTEM MIRROR NATIONAL TRENDS AMONG COMMERCIAL CARRIERS

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BCBS trends mirror national trends seen among commercial carriers.

- Since 1994, five BCBS plans have either completed a conversion transaction or are in the process of converting (RightChoice, Empire, WellPoint, Trigon, BCBS United of Wisconsin)
- Over the past several years, there has been significant regional consolidation within the BCBS sector (CareFirst, Regence, WellPoint, Highmark, Anthem, Premiera, HCSC, Excellus)
- Since 1993, BCBS plans have raised nearly \$1.7 billion of capital from the public markets, and publicly-traded BCBS plans have sold nearly \$3.0 billion of equity

BLUE CROSS BLUE SHIELD OVERVIEW

In recent years, the BCBS sector has been characterized by many of the same trends that have impacted the overall managed care sector, as well as several unique to the sector.

- Conversion to for-profit stockholder-owned corporations (or demutualizations in the case of Trigon)
- Consolidation either through mergers or affiliations to reap the benefits of regional market scale
- Actively accessing public capital markets to fund strategic growth initiatives
- Unlike many large managed care plans, the BCBS sector has benefited from strong consumer preference for less-managed products and broader provider networks
- Benefit from strong market growth in core PPO and small group markets
- Strong local market shares position sector to develop strong regional and super-regional presence in rapidly consolidating sector
- Larger BCBS plans are now viewed as competing directly with public market counterparts

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